THE GREAT
ATLANTIC & PACIFIC
TEA COMPANY, INC.

ANNUAL REPORT 1989

MARKET SEGMENTS
IN THE 90S:
THE NEW YORK
EXPERIENCE

Comparative Highlights

The Great Atlantic & Pacific Tea Company, Inc.			
(Dollars in thousands, except per share figures)	**Fiscal 1989**	Fiscal 1988	Fiscal 1987
Sales	**$11,147,997**	$10,067,776	$9,531,780
Net income	**146,698**	127,582	103,443
Net income per share	**3.84**	3.34	2.71
Cash dividends per share	**.675**	.575	.475
Expenditures for property	**218,825**	176,148	230,385
Working capital	**80,181**	90,637	62,710
Current ratio	**1.08**	1.09	1.07
Shareholders' equity	**1,092,164**	970,843	851,310
Book value per share	**28.59**	25.42	22.32
Number of stores at year end	**1,215**	1,241	1,183

Company Profile

The Great Atlantic & Pacific Tea Company, Inc. based in Montvale, New Jersey, operates conventional supermarkets and larger superstores in 26 U.S. states and Ontario, Canada, under the A&P, Waldbaum's, Food Emporium, Super Fresh, Farmer Jack, Kohl's and Dominion trade names. As of the fiscal year ended February 24, 1990, the Company operated a total of 1,215 stores. Through its Compass Foods subsidiary, the Company also manufactures and distributes a line of coffees under the Eight O'Clock, Bokar and Royale labels, both for sale through its own stores, and by other companies outside A&P's trading areas.

Contents

A&P achieved its eighth consecutive year of record sales and earnings growth in fiscal 1989.

To recap our results for the fiscal year ended February 24, 1990, net income rose 15% to $146.7 million or $3.84 per share from $127.6 million or $3.34 per share in the year ended February 25, 1989. Sales were $11.1 billion, compared with $10.1 billion in the prior year.

Our 1989 earnings were affected by two new factors. For the first time, a significant charge of 13 cents per share was incurred for using the LIFO method of inventory valuation for certain of our recently acquired companies. The second factor was the 8 cents per share cost of carrying our 19.9% investment in Isosceles PLC, operator of more than 700 supermarkets in the United Kingdom. Earnings before the effect of these two factors improved by 20% in 1989 vs. 1988.

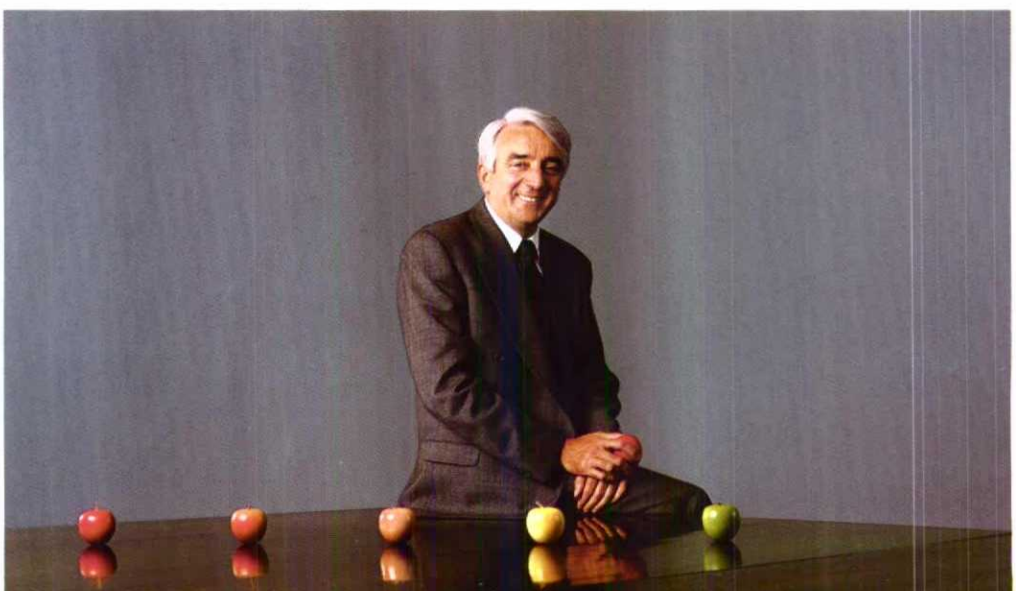
Our Company's success last year and indeed through the 1980s was based on the achievement of several key goals. We controlled the business through strict bottom line management, invested substantially to modernize our store network in our most profitable areas and successfully absorbed strategic acquisitions.

Reviewing our 1989 results by region, we benefited from another excellent performance in Metro New York by the A&P, Food Emporium and Waldbaum's store groups. Although price promotion intensified in some areas of the market during the second half, we made necessary adjustments to meet competitive thrusts. With LBO debt service stifling new store development by some competitors, we maintained our own strong program, which will continue in fiscal 1990.

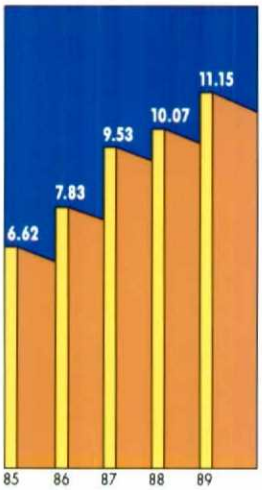
Intensified price competition from chains and aggressive independents in Ontario required appropriate responses by A&P Canada and Dominion in fiscal 1989. Our aggressive promotional efforts were instrumental in protecting our leading Ontario market share while producing another strong contribution to earnings.

Super Fresh Pennsylvania weathered both heightened competition and the effect of a Thanksgiving week labor strike to contribute significantly to 1989 results. In the Philadelphia market, Super Fresh enhanced a positive sales trend through the second half

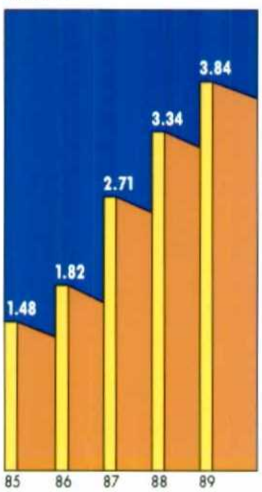
James Wood, Chairman of the Board, President and Chief Executive Officer



Comparative Sales
Billions of Dollars



Earnings per Share Before Extraordinary Credits
In Dollars



of 1989 and into the new fiscal year. Our Mid-Atlantic Super Fresh stores in Baltimore and Washington again competed effectively, by virtue of their excellent locations and strong sales programs. To further improve our store concentration in those markets, we maintain the active search for favorable store sites. For 1990, we have budgeted the region's most extensive capital program to date.

In the Midwest, we have completed the process of merging the A&P and Farmer Jack support operations in Michigan, and will now focus on the appropriate merchandising formats for both store groups. As the result of customer resistance to the initial change-over of A&P stores to the Farmer Jack name and merchandising format, we have resumed operating A&P and Farmer Jack as separate store groups, with merchandising tailored to their distinct customer bases. This will enable us to best exploit the benefits of our market share leadership in Detroit.

Kohl's in Wisconsin will also re-focus its marketing approach in 1990. Considering the strength of low-price warehouse stores and franchised, non-union operators in Wisconsin, Kohl's has achieved commendable sales and profit results. To maintain market share and profitability, we will renew our emphasis on upscale merchandising and service to strengthen our hold on that market niche.

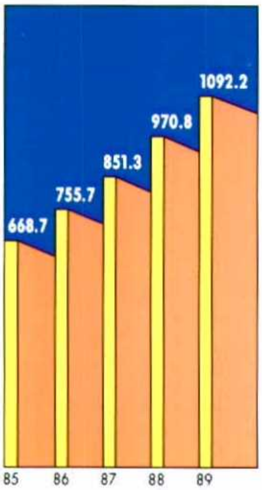
The two store groups in the Northeast–A&P and Waldbaum's Food Mart–performed well in fiscal 1989 in an increasingly competitive market area. Strong merchandising programs in both groups, combined with the benefits of extensive capital development will position our stores to compete effectively in 1990 and beyond.

Several areas of the Southern operations remain hard-pressed. We maintained our market position in Atlanta by pricing our superstores aggressively against leading competitors in 1989, but the market's overstoring continues to hinder growth prospects. We achieved little improvement in Virginia and the Carolinas against prevailing non-union competition which continues to expand in those areas.

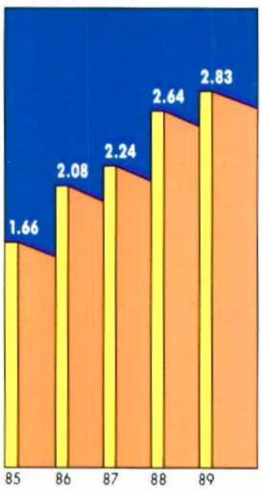
After many difficult years, results in the New Orleans Group have begun to improve, as has the area's economy. Those positive signs have prompted our first significant

Left to right: Fred Corrado, Executive Vice President, Chief Financial Officer and Treasurer; Peter O'Gorman, Executive Vice President, Development; Michael Larkin, Executive Vice President, Operations; Aaron Malinsky, Executive Vice President, Subsidiary Companies

SHAREHOLDERS' EQUITY
Millions of Dollars



TOTAL ASSETS
Billions of Dollars



capital development in some time, with several new superstores scheduled to open in Louisiana and the Mississippi Gulf Coast. Combined with the Super Fresh group's continued market leadership in Baton Rouge, we look ahead with optimism in that region.

Overall, an increased level of store development will complement our total marketing effort in fiscal 1990, with $295 million budgeted for store construction, enlargement and remodeling projects. Although the heaviest investment will again be in the A&P Metro Group, Waldbaum's New York operations, the Canadian Company, and Super Fresh Pennsylvania, we have also committed to substantial programs in the Northeast, Mid-Atlantic and Midwest.

Looking back, I believe we can take great pride in A&P's achievements in the decade of the 1980s. Against considerable odds, we restored and sustained the Company's profitability; became innovators in regional marketing and store format development; set the pace in growth by acquisition, and built one of the strongest balance sheets in the industry.

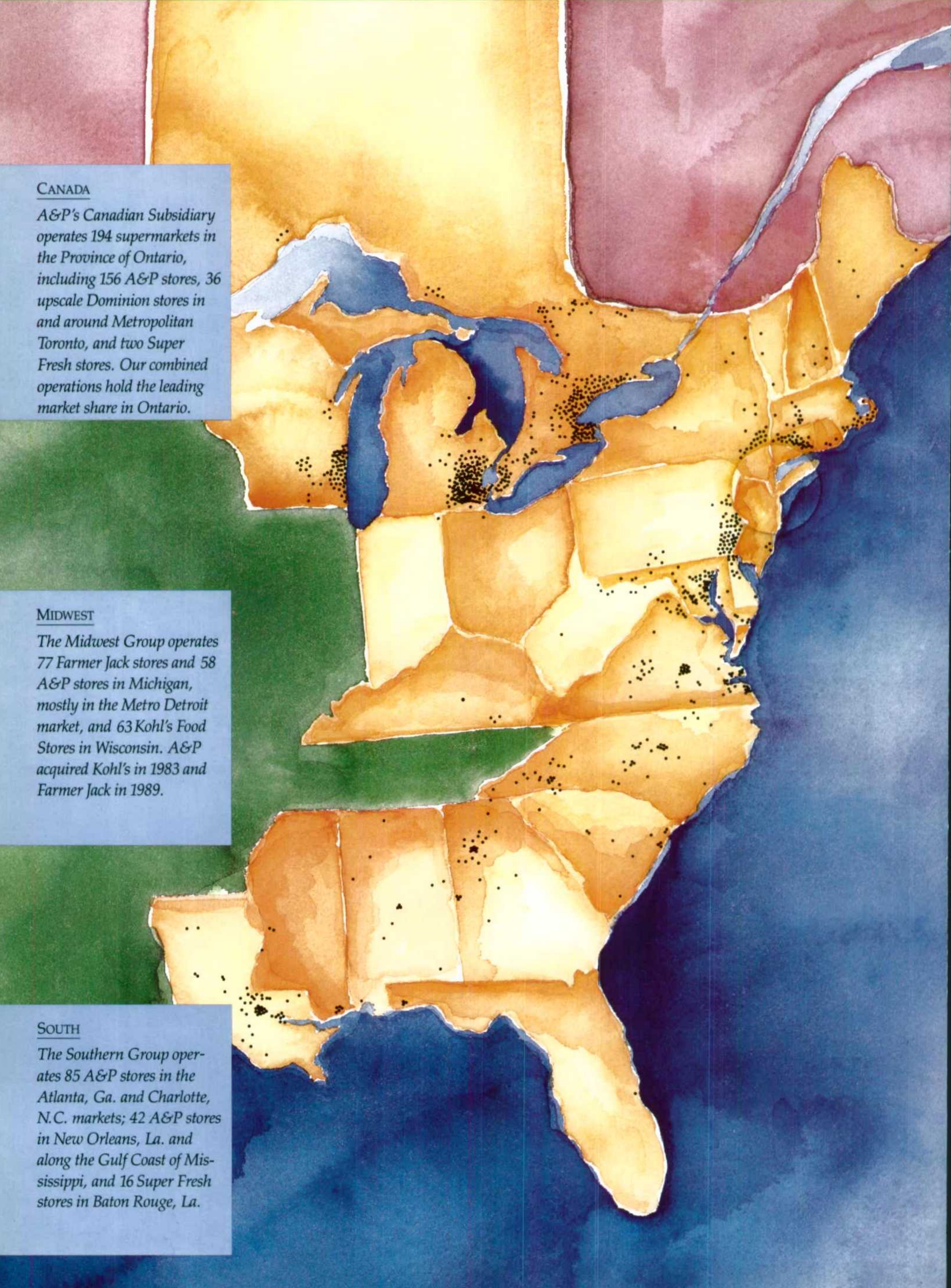
Heading into the new decade, we will continue to increase our sales and customer base with a fresh, new marketing plan, having united our purchasing, merchandising and advertising functions under a single corporate umbrella. This will provide strong marketing direction while allowing our groups to maintain the regional and local flair so important to our success thus far. Additionally, the change will contribute to a lower total cost of goods through more centralized, high-volume purchasing, to support aggressive selling in the marketplace.

Our Company has the people, financial strength, store facilities and technology we need to assume industry leadership in this decade. Given our past accomplishments, I am confident we will be successful.

James Wood

JAMES WOOD
Chairman of the Board, President and Chief Executive Officer

Left to right:
Robert Ulrich, Senior Vice President, General Counsel; James Madden, Senior Vice President, Operations; George Graham, Senior Vice President, Chief Merchandising Officer; Ivan Szathmary, Senior Vice President, Chief Services Officer



CANADA

A&P's Canadian Subsidiary operates 194 supermarkets in the Province of Ontario, including 156 A&P stores, 36 upscale Dominion stores in and around Metropolitan Toronto, and two Super Fresh stores. Our combined operations hold the leading market share in Ontario.

MIDWEST

The Midwest Group operates 77 Farmer Jack stores and 58 A&P stores in Michigan, mostly in the Metro Detroit market, and 63 Kohl's Food Stores in Wisconsin. A&P acquired Kohl's in 1983 and Farmer Jack in 1989.

SOUTH

The Southern Group operates 85 A&P stores in the Atlanta, Ga. and Charlotte, N.C. markets; 42 A&P stores in New Orleans, La. and along the Gulf Coast of Mississippi, and 16 Super Fresh stores in Baton Rouge, La.

NORTHEAST

The Northeast Group consists of 78 A&P stores and 42 Waldbaum's Food Marts in southern Massachusetts including Cape Cod, northern and central Connecticut, upstate New York, Maine, New Hampshire, Rhode Island, and Vermont.

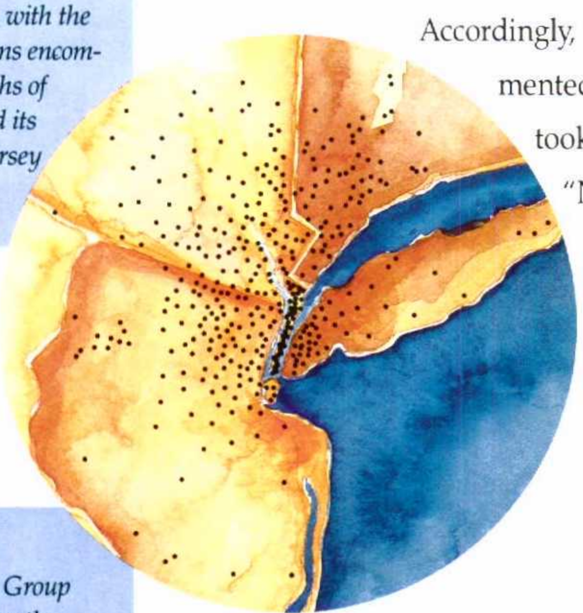
A key element of A&P's growth strategy in the eighties was the restructuring of the Company into six operating groups, as shown on the accompanying map, with store format and marketing strategies designed for local appeal. After leaving markets which analysis showed had little profit potential, the Company focused its efforts and resources on traditional stronghold regions. Perhaps the best case in point is The Greater New York Area.

A&P's roots are in New York, and its Metro Group today remains the Company's largest regional entity...and also the most visible symbol of A&P's resurgence. Internal store development combined with two major acquisitions have made A&P the food retailing leader in the nation's most prolific marketplace. Because of the area's diversity, our marketing is more varied and targeted there than in any other region, and every store format in the Company's portfolio is represented.

Accordingly, this year's Annual Report is devoted to our segmented marketing approach in The Big Apple, how it took shape through the 1980s, and how our successful "New York Experience" will continue to play a part in the ongoing development of our other U.S. and Canadian operating regions.

METRO NEW YORK

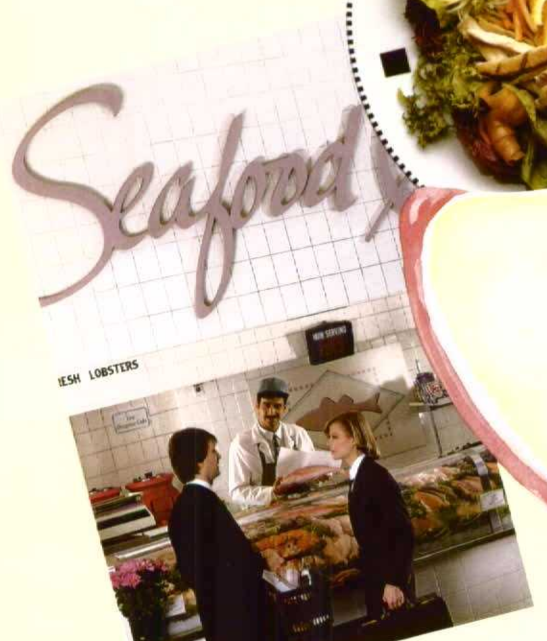
A&P is the New York market leader with 190 A&P stores, 100 Waldbaum's stores and 30 Food Emporiums, with the combined operations encompassing all boroughs of New York City and its New York, New Jersey and nearby Connecticut suburbs.



MID-ATLANTIC

The Mid-Atlantic Group stores operate under the Super Fresh banner in the Philadelphia/southern New Jersey/Delaware Valley area (73 stores), Baltimore/Washington, D.C. (84), Richmond, Va. (60) and Raleigh, N.C. (23).

Serving up a gourmet experience in addition to satisfying everyday shopping needs, Food Emporium is a favorite of discerning Manhattan shoppers, and has also built a loyal following in affluent Westchester County, Long Island and Connecticut suburbs. Truly a food lover's food store, Food Emporium's outstanding quality, service and ability to cater to diverse lifestyles have become hallmarks. For those who savor great dishes but are strangers to the kitchen, we boast an array of prepared entrees that rivals many restaurants. Others find the culinary art as rewarding as the eating. For them, several Food Emporiums feature unique demonstration kitchens. We believe this unique combination of supermarket and gourmet store has great potential in other cosmopolitan markets.



Individualistic... Impatient... Sophisticated. An apt description of Manhattan and its people–and the discriminating audience Food Emporium plays to each day.

To be part of the city's unique atmosphere, even well-to-do New Yorkers accept some inconvenience and adversity. But when it comes to food, they demand the best. Food Emporium's objective is two-fold... to serve this most diffuse and discerning consumer concentration anywhere, and do so profitably despite high costs and a host of logistical barriers.

For that reason, we are proud of our success in Manhattan. Even the most demanding New Yorkers have come to know Food Emporium as a supermarket with a distinctive gourmet flair, and a cosmopolitan product assortment attuned to the city's many cultural influences. They know our standards meet their own. And in a town where food shopping goes on around the clock, they know Food Emporium is always ready for them.

New Yorkers also like their necessities wrapped in style and class, and a pleasing shopping ambiance is as much a part of Food Emporium as its products and service. Interiors are designed, decorated and illuminated to create a clean, elegant atmosphere. Product displays are carefully arranged and maintained, underscoring the gourmet quality image.

The difficulties of retailing at such a level in the city environment are myriad, and demand creative approaches to everything from store design to product selection, from personnel training to distribution.

Because we've succeeded in this toughest of proving grounds, we see this specialized format as viable for expansion to other urban centers in the years to come.

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Strategy: Provide Extensive Selection and Value for Diverse Metropolitan Populations

As Food Emporium caters to New York's showcase, so Waldbaum's serves its heartland. Since its founding in 1903, and the opening of its first full-scale supermarket in Kew Gardens, Queens in 1951, Waldbaum's has built an unmistakable merchandising image with New York area shoppers.

The company carved its original niche in small grocery stores catering principally to the Jewish families that had settled in the neighborhoods of Brooklyn and Queens. Today, the Waldbaum's trademark remains strong ethnic merchandising, but it has broadened its reach to accommodate the great diversity of its growing market.

Bridging the territorial and demographic gap between the city and its affluent suburban outreaches, Waldbaum's today continues to appeal to New York's real melting pot—the hard-working, no-nonsense shoppers who demand value yet respect their longstanding traditions, and the role food plays in their observance.

To serve them, contemporary Waldbaum's supermarkets are large, accommodating an impressive variety of products—geared to address the unique ethnic preferences of its customers, as well as the more universal demand for fresh, high-quality perishables and the convenience of prepared and ready-to-cook foods. Although there are several Waldbaum's prototypes, all are designed for promotional, high-volume merchandising, as communicated by the chain's advertising slogan, "Come Share Our Values."

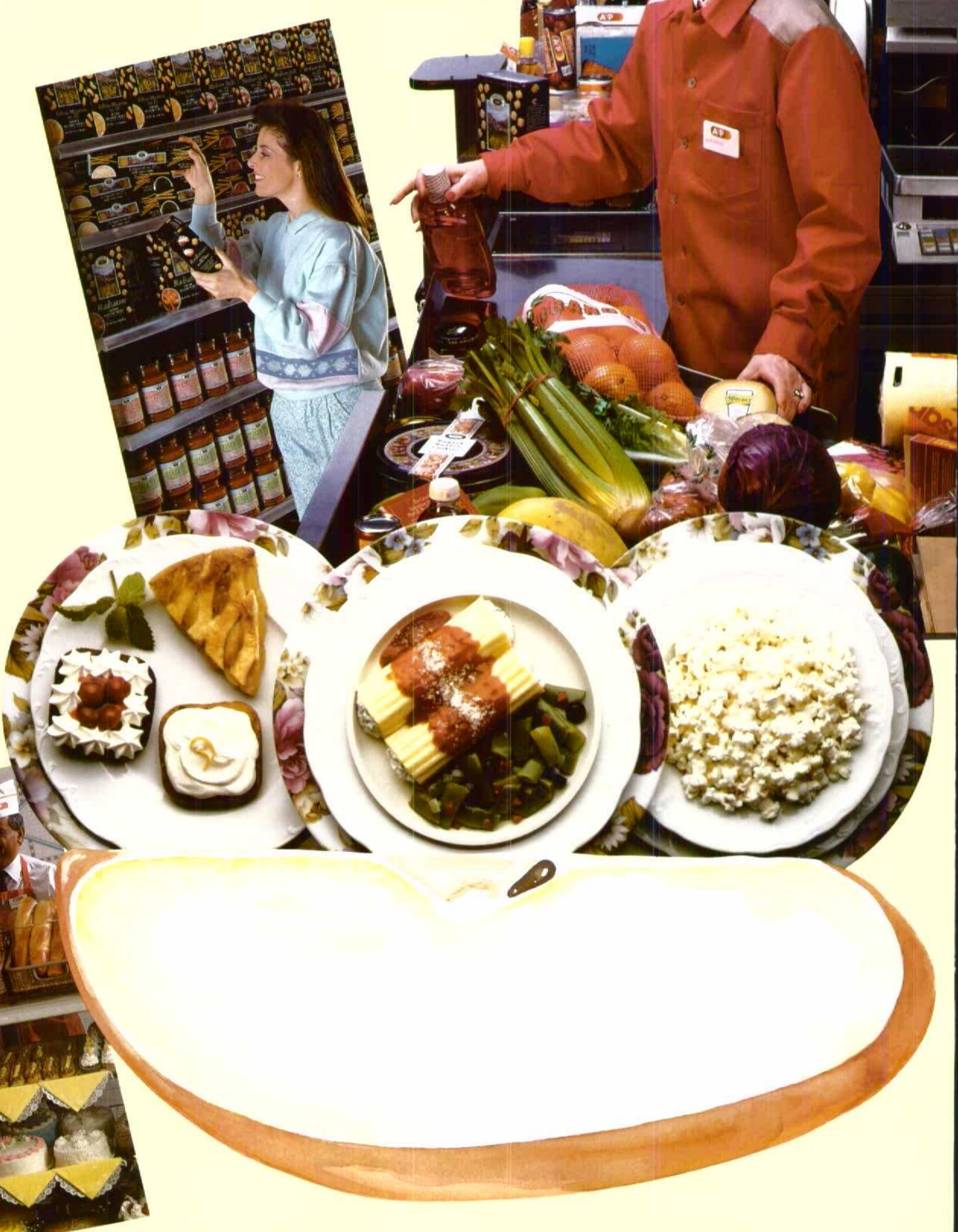
Since joining the A&P group of companies in 1986, Waldbaum's has remained faithful to its original roots as a renowned and respected merchant in the New York area, while consistently sharpening its business skills and improving profitability each year.

"Waldbaum's today continues to appeal to New York's real melting pot—the hard-working, no-nonsense shoppers who demand value yet respect their longstanding heritage... Waldbaum's has remained faithful to its original roots as a renowned and respected merchant in the New York area, while consistently sharpening its business skills and improving profitability each year."

Our Waldbaum's supermarkets and superstores today serve Long Island, Westchester County and all the boroughs of New York outside of Manhattan, and plans for further development in New Jersey communities bordering the city are underway. Modern Waldbaum's units are in the superstore size range, epitomized by Super Waldbaum's stores in Middle Village, Queens (72,000 square feet) and a revitalized area of Jersey City, New Jersey (55,000 square feet). Massive displays of grocery products, complemented by health and beauty aids, are flanked by deli, bakery and other perishable food departments that are unmistakably "New York" in style and appeal. The acquisition of Waldbaum's in 1986 gave our Company access to a new and important customer base, which helped to elevate us to market share leadership in Metro New York.

Get More, Spend Less at A & P

Perhaps the best example of A&P's renewed marketing philosophy in the 1980's was the introduction of a unique, upscale suburban store format. It represented the Company's commitment to innovative store design, in this instance tailored to more affluent executive or resort areas in New York and New Jersey. With an updated design and decor approach, our new generation of upscale superstores for the '90s will continue to fulfill the basic needs of the suburban family, but with a broad array of gourmet and specialty items, including our own Master Choice and Eight O'Clock Coffee lines. This extensive variety, in many stores totaling 20,000 items, is accompanied by full-service meat, seafood, bakery, deli, prepared food and floral departments, self-service salad bars, and extensive produce sections. In addition, most locations offer the convenience of 24-hour operations.



The meaning of the term "superstore" has become clouded in supermarket industry terminology of late. For A&P, it means a store that is large but not overwhelming, offering a true one-stop shopping array of food and food-related general merchandise products.

In the more affluent, executive communities of New York's Westchester County and New Jersey, A&P continues to develop superstores incorporating the Food Emporium-style emphasis on upscale product selection, service and shopping atmosphere, but spread across a much greater variety of product lines and sizes.

While cultural and ethnic diversity is not as great as in city centers, demographic differences abound...single and double income households, with and without children; established executive "empty-nesters"; young professional "commuter" couples; senior citizens who've lived in their communities since open space pre-dated extensive suburban development.

Such groups differ as to when and how often they shop, how much they buy, which food categories and service departments they prefer and the like. Much has to do with how many meals they prepare and/or consume at home. This is the multi-faceted challenge we face in becoming and remaining the store of choice for the major weekly shopping trip.

A&P unveiled its first upscale suburban prototype in Allendale, New Jersey in 1984. This innovative approach featured a unique black and white interior, a spacious, uncluttered environment and a host of specialty food and service departments. Consumer reaction was enthusiastic, and we developed the upscale suburban concept as one of our most important strategies for the future.

Since then, we have continually fine-tuned our variety, layouts and decor as we expand smaller stores and build new superstores, to accommodate customers in suburban locations that warrant this store format.

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Strategy: Provide Promotional Superstore Merchandising Atmosphere for Price-Oriented Suburban Customers

More densely populated suburbs of New York generally pose different demographics—more "traditional" households, greater ethnic concentrations, young couples starting out in condominium or garden apartment developments, more senior citizens, and generally more moderate incomes. Although all appreciate the atmosphere and time-saving virtues of superstores, substantial numbers continue to emphasize price.

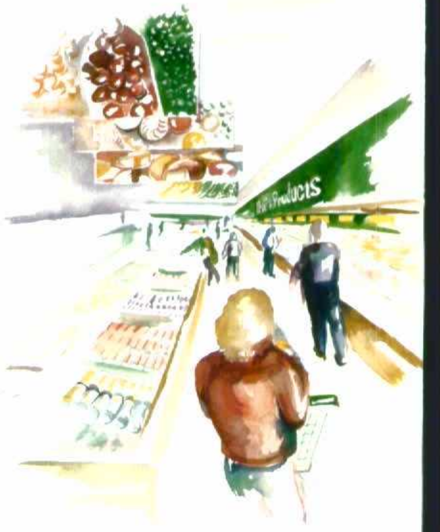
For that significant customer base, we developed the Sav-A-Center format, which made its debut in 1985 in Melville, New York on Long Island. As name and physical appearance suggest, this is the more promotional of A&P's two superstore approaches. It is also versatile, capable of serving a large cross-section of customers through its combination of variety, service and price.

Although its massive product displays, metal grocery racking and bold price signage are faintly reminiscent of warehouse-type stores, the environment is bright and colorful, and quality is not compromised in the perishables departments around the perimeters.

Flexibility, both in operations and merchandising, is another Sav-A-Center hallmark. Grocery aisles and fixtures are designed to facilitate rapid shelf replenishment, while service departments are aligned to promote synergies in backroom preparation and labor coverage. And our alternative prototypes include service or self-service variations of meat, seafood, bakery and floral departments, as warranted by local needs and tastes.

Along with our more upscale superstores, the Sav-A-Center format has enabled us to better serve our two major suburban consumer streams—those who will spend money to save time, and those who will spend time to save money.

"As name and physical appearance suggest, this is the more promotional of A&P's two superstore approaches... Along with our more upscale superstores, Sav-A-Center has enabled us to serve those who will spend money to save time, and those who will spend time to save money."



A&P's Sav-A-Centers feature superstore size and variety, outstanding perishables departments and a pleasant, one-stop shopping environment. But their decor, product displays and conspicuous price promotion clearly differentiate them from our more upscale suburban units. These spacious, promotional superstores communicate value to consumers who demand low prices along with an extensive assortment of national brand products and high-quality A&P private label alternatives. Yet Sav-A-Center prototypes enable us to provide such amenities as service meat, seafood, and floral departments, if warranted by a store's marketing area. Sav-A-Center has been our most widely developed store format since the mid-1980s.

Although our capital expenditure programs for store development clearly emphasize superstores, our smaller, neighborhood markets continue to compete effectively—and profitably—by bridging the price/variety/service gap between larger and smaller competitors. Easy access and a tailored product assortment enable these stores to fill a variety of shopping needs. And because occupancy and other costs are relatively low, they can operate profitably without superstore volumes. But the popularity of the neighborhood supermarket is based on more than location and convenience. By sponsoring recreational and civic activities, heading local food donation programs and supporting other charitable endeavors, A&P stores become focal points in their communities...a degree of involvement that develops friendships as well as customers.

Strategy: Provide Convenience and Friendly Service for Neighborhood Shoppers

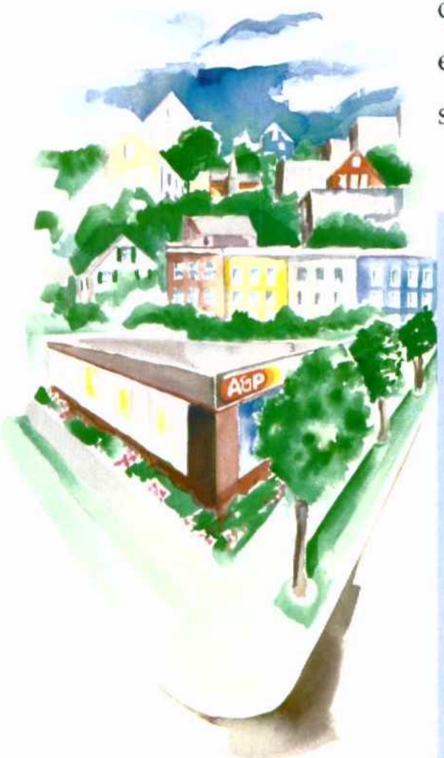
Long before the emergence of gourmet stores, superstores, warehouse stores and today's other retailing permutations, the name A&P was synonymous with the neighborhood food store, especially in New York where it all started.

Although we've diversified over time, familiar A&P supermarkets in excellent, center-of-town locations have occupied a distinctive niche in the lives of their customers and communities for many years, and will for many more.

Serving densely populated areas with a lock on some of the best neighborhood locations in the Metropolitan area, such stores are nearly immune to new competitive thrusts amid New York's tight environs. And relatively low cost structures enable them to operate very profitably while tailoring marketing approaches to their immediate surroundings.

In some areas, they meet consumer needs by being more accessible and faster to shop than larger competitors, but with traditional supermarket variety, quality and prices. In more affluent communities, they can be upgraded with a gourmet and specialty food emphasis, as we did in our former conventional stores in such towns as Montvale and Westfield, New Jersey, Scarsdale, New York and Stamford, Connecticut.

But our neighborhood supermarkets are more than retail outlets. They are places where customers and staff know each other and share common concerns for their neighbors and communities. Our store managers and their employees share our corporate commitment to community outreach, and the support of worthy causes and activities at the local level.



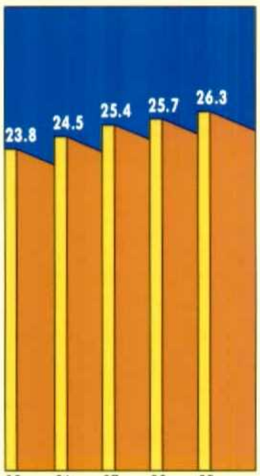
"Our neighborhood supermarkets are places where customers and staff know each other and share common concerns for their neighbors and communities. Our store managers and their employees share our corporate commitment to community outreach, and the support of worthy causes and activities at the local level."

Operating Results

FISCAL 1989 COMPARED WITH 1988

Sales for fiscal 1989 were $11.1 billion reflecting a 10.7% increase over sales for fiscal 1988 of $10.1 billion. The sales increase was due to the opening of 18 new stores and the remodeling of 83 existing stores during the year partially offset by the closing of 44 obsolete stores with the most significant increase being realized by the full year effect of the Borman's acquisition. Average weekly sales per store for the year increased 6.4% to $174,800 from $164,300.

GROSS MARGIN
Percentage of Sales



Gross margin as a percent of sales of 26.3% increased .6% over the previous year. The increase reflects aggressive containment and management of product costs through more centralized high-volume purchasing and a continued improvement in product mix offset, in part, by a LIFO charge of $8.4 million in 1989 compared to $2.0 million in 1988.

Store operating, general and administrative expense as a percent of sales was 23.6% compared to 23.0% during the prior year. The increased rate is due primarily to increased costs and expenses associated with store labor, employee benefits and store occupancy costs.

Interest expense increased over the previous year primarily due to borrowings related to the Company's loan to Newgateway Holdings, investment in Isosceles and borrowings related to the acquisition of Borman's, Inc.

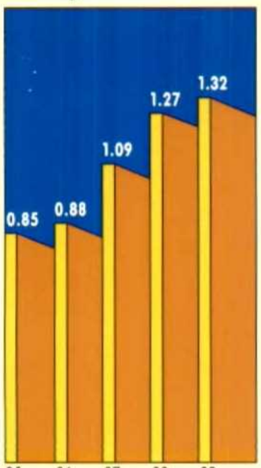
Interest income increased over the previous year primarily due to interest income on the Company's loan to Newgateway Holdings.

The Company's effective tax rate for fiscal 1989 was 41.5% as compared to a 43.0% rate for the prior fiscal year primarily due to a decrease in state taxes.

FISCAL 1988 COMPARED WITH 1987

Sales for fiscal 1988 were $10.1 billion reflecting a 5.6% increase over sales for fiscal 1987 of $9.5 billion. The increase in sales includes the January 1989 acquisition of 81 Borman's stores, a stronger Canadian exchange rate, the opening of 22 new stores and the remodeling of 76 existing stores during the year partially offset by the closing of 45 obsolete stores. Average weekly sales per store for the year increased 6.0% to $164,300 from $155,040.

RETURN ON SALES
(Net Income after Taxes, before Extraordinary Credits) Percentage



Gross margin as a percent of sales of 25.7% increased .3% over the previous year. The increase reflects an improvement in product mix and aggressive containment and management of product costs.

Store operating, general and administrative expense as a percent of sales was 23.0% compared to 22.9% during the prior year. The increased rate includes higher labor and employee benefit costs partially offset by a lower rate of store occupancy costs.

The decrease in interest expense reflects a reduction in borrowings from the prior year.

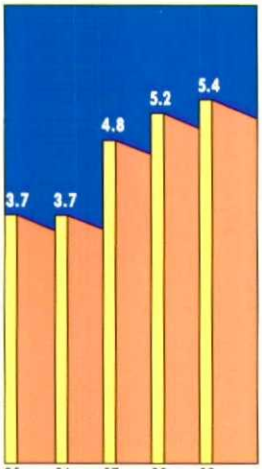
The Company's effective tax rate for fiscal 1988 was 43.0% compared to a 45.0% rate for the prior fiscal year primarily due to lower U.S. and Canadian statutory rates.

Fiscal 1987 Compared with 1986

Sales for fiscal 1987 were $9.5 billion as compared with $7.8 billion in fiscal 1986, a 21.7% increase. Average weekly sales per store for the period increased from $135,121 to $155,040 for an increase of 14.7%. The increase in sales reflects the acquisitions of Waldbaum, Inc. and Shopwell, Inc., the opening of new stores and the remodeling of existing stores.

Gross margin as a percent of sales increased .9% over the prior year from 24.5% to 25.4% resulting primarily from cost reductions due to a more aggressive purchasing policy and a better product mix.

Return on Assets
Percentage



Store operating, general and administrative expense as a percent of sales increased to 22.9% for the current year from 22.5% for the prior year primarily due to the increased costs and expenses associated with store labor, employee benefits and occupancy costs.

The increase in interest expense is due to the assumption of borrowings resulting from the acquisitions of Waldbaum, Inc. and Shopwell, Inc. The decrease in interest income is due primarily to the disposition of marketable securities to finance the Company's fiscal 1986 acquisitions.

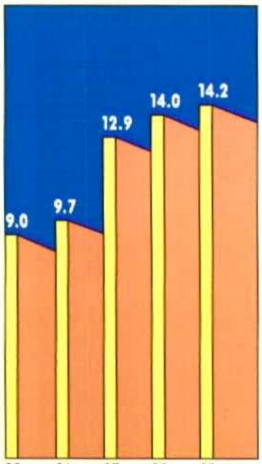
Although the Company's effective tax rate decreased to 45.0% in fiscal 1987 from 46.8% in fiscal 1986, the provision for income taxes increased as a result of increased profitability.

Liquidity and Capital Resources

The Company ended the fiscal year with working capital of $80 million compared with $91 million and $63 million at February 25, 1989 and February 27, 1988, respectively. The Company had cash and short-term investments aggregating $35 million at the end of fiscal 1989 compared to $44 million and $54 million at the end of fiscal 1988 and 1987, respectively. The Company also has in excess of $500 million in various available credit facilities.

During fiscal 1989, the Company financed its capital expenditures, debt repayments and cash dividends through internally generated funds supplemented by external borrowings. In 1989, the Company entered into bank credit agreements for Pound Sterling borrowings to finance its loan to Newgateway and investment in Isosceles. Subsequent to 1989 fiscal year end, the Company refinanced its Pound Sterling borrowings with U.S. bank and commercial paper debt. Simultaneously, the Company executed one year forward exchange contracts with banks for 77 million Pounds Sterling at an exchange rate of 1.61. United Kingdom borrowings were $106 million as of 1989 fiscal year end. During fiscal 1989, average outstanding United Kingdom borrowings were $106 million at an average interest rate of 14.8%. Combined U.S. bank and commercial paper debt decreased during the fiscal year from $167 million at February 25, 1989 to $151 million at February 24, 1990. Average outstanding U.S. bank and commercial paper borrowings during fiscal 1989 were $123 million at an average interest rate of 9.2%.

Return on Equity
Percentage



The Company's current cash resources, together with available credit facilities and income from operations, are sufficient for the Company's capital expenditure program, debt retirements and dividend payments in fiscal 1990.

Statements of Consolidated Operations

The Great Atlantic & Pacific Tea Company, Inc.

(Dollars in thousands, except per share figures)	**Fiscal 1989**	Fiscal 1988	Fiscal 1987
Sales	**$11,147,997**	$10,067,776	$9,531,780
Cost of merchandise sold	**8,211,263**	7,481,373	7,112,915
Gross margin	**2,936,734**	2,586,403	2,418,865
Store operating, general and administrative expense	**(2,628,621)**	(2,319,044)	(2,183,498)
Income from operations	**308,113**	267,359	235,367
Interest expense	**(73,474)**	(48,535)	(51,921)
Interest income	**16,159**	4,958	4,497
Income before income taxes	**250,798**	223,782	187,943
Provision for income taxes	**(104,100)**	(96,200)	(84,500)
Net income	**$ 146,698**	$ 127,582	$ 103,443
Net income per share	**$ 3.84**	$ 3.34	$ 2.71

Statements of Consolidated Shareholders' Equity

The Great Atlantic & Pacific Tea Company, Inc.

(Dollars in thousands)	**Fiscal 1989**	Fiscal 1988	Fiscal 1987
Common stock:			
Balance beginning of year	**$ 38,199**	$ 38,143	$ 38,068
Exercise of options	**13**	56	75
	$ 38,212	$ 38,199	$ 38,143
Capital surplus:			
Balance beginning of year	**$ 436,786**	$ 430,561	$ 427,432
Exercise of options and phantom share agreement	**1,127**	6,225	3,129
	$ 437,913	$ 436,786	$ 430,561
Cumulative translation adjustment:			
Balance beginning of year	**$ 2,694**	$ (5,282)	$ (12,329)
Exchange adjustment	**(748)**	7,976	7,047
	$ 1,946	$ 2,694	$ (5,282)
Retained earnings:			
Balance beginning of year	**$ 493,522**	$ 387,888	$ 302,547
Net income	**146,698**	127,582	103,443
Cash dividends	**(25,785)**	(21,948)	(18,102)
	$ 614,435	$ 493,522	$ 387,888
Treasury stock, at cost:			
Balance beginning of year	**$ (358)**	$ –	$ –
Purchase of Treasury stock	**(15)**	(358)	–
Reissuance of Treasury stock	**31**	–	–
	$ (342)	$ (358)	$ –

See Notes to Consolidated Financial Statements on pages 21 through 30.

Consolidated Balance Sheets

The Great Atlantic & Pacific Tea Company, Inc.

(Dollars in thousands)	February 24, 1990	February 25, 1989
Assets		
Current assets:		
Cash and short-term investments	**$ 35,059**	$ 44,496
Accounts receivable	**164,000**	152,037
Inventories	**836,181**	829,229
Properties held for sale	**2,269**	3,879
Prepaid expenses	**38,358**	39,105
Total current assets	**1,075,867**	1,068,746
Property:		
Land	**88,045**	83,621
Buildings	**212,791**	197,395
Equipment and leasehold improvements	**1,544,636**	1,408,765
Total–at cost	**1,845,472**	1,689,781
Less accumulated depreciation and amortization	**(507,476)**	(396,864)
	1,337,996	1,292,917
Property leased under capital leases	**188,187**	208,980
Property–net	**1,526,183**	1,501,897
Other assets	**229,522**	69,727
	$2,831,572	$2,640,370
Liabilities and Shareholders' Equity		
Current liabilities:		
Current portion of long-term debt	**$ 54,869**	$ 60,619
Current portion of obligations under capital leases	**20,677**	21,052
Accounts payable	**522,640**	531,749
Accrued salaries, wages and benefits	**156,175**	148,959
Accrued taxes	**77,106**	73,699
Other accruals	**164,219**	142,031
Total current liabilities	**995,686**	978,109
Long-term debt	**329,286**	254,312
Obligations under capital leases	**233,564**	252,618
Deferred income taxes	**88,775**	57,167
Other non-current liabilities	**92,097**	127,321
Shareholders' equity:		
Preferred stock–no par value; authorized–3,000,000 shares; issued–none		
Common stock–$1 par value; authorized–80,000,000 shares; issued 38,211,790 and 38,198,790 shares, respectively	**38,212**	38,199
Capital surplus	**437,913**	436,786
Cumulative translation adjustment	**1,946**	2,694
Retained earnings	**614,435**	493,522
Treasury stock, at cost, 8,606 and 9,162 shares, respectively	**(342)**	(358)
Total shareholders' equity	**1,092,164**	970,843
	$2,831,572	$2,640,370

See Notes to Consolidated Financial Statements on pages 21 through 30.

Statements of Consolidated Cash Flows

(Dollars in thousands)	**Fiscal 1989**	Fiscal 1988	Fiscal 1987
Cash Flows From Operating Activities:			
Net income	**$146,698**	$127,582	$103,443
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	**179,676**	150,691	143,530
Gain on disposal of owned property	**(4,994)**	(1,479)	(4,176)
Increase in receivables	**(17,870)**	(17,625)	(28,637)
Increase in inventories	**(7,159)**	(10,213)	(21,794)
(Increase) decrease in other current assets	**2,352**	(13,840)	7,881
Increase (decrease) in accounts payable	**(9,198)**	(3,710)	29,236
Increase (decrease) in accrued expenses	**11,768**	(536)	34,650
Decrease in other accruals	**(2,890)**	(16,166)	(14,084)
Increase in deferred income taxes	**31,572**	23,277	19,807
Other	**(12,078)**	(1,586)	(18,313)
Net cash provided by operating activities	**317,877**	236,395	251,543
Cash Flows From Investing Activities:			
Expenditures for property	**(218,825)**	(176,148)	(230,385)
Proceeds from disposal of property	**13,354**	21,447	17,100
Long-term investment	**(485,192)**	–	–
Proceeds from long-term investment	**338,350**	–	–
Acquisition of business	**–**	(75,519)	–
Net cash used in investing activities	**(352,313)**	(230,220)	(213,285)
Cash Flows From Financing Activities:			
Proceeds from debt	**480,813**	180,175	42,851
Payment of debt	**(408,082)**	(152,549)	(46,403)
Principal payments on capital leases	**(22,037)**	(22,956)	(25,781)
Cash dividends	**(25,785)**	(21,948)	(18,102)
Proceeds from stock options exercised	**140**	681	658
Purchase of Treasury stock	**(15)**	(358)	–
Net cash provided by (used in) financing activities	**25,034**	(16,955)	(46,777)
Effect of exchange rate changes on cash and short-term investments	**(35)**	832	895
Net Decrease in Cash and Short-term Investments	**(9,437)**	(9,948)	(7,624)
Cash and Short-term Investments at Beginning of Year	**44,496**	54,444	62,068
Cash and Short-term Investments at End of Year	**$ 35,059**	$ 44,496	$ 54,444

See Notes to Consolidated Financial Statements on pages 21 through 30.

Summary of Significant Accounting Policies

Fiscal Year

The Company's fiscal year ends on the last Saturday in February. Fiscal 1989 ended February 24, 1990, fiscal 1988 ended February 25, 1989 and fiscal 1987 ended February 27, 1988 each comprising 52 weeks.

Common Stock

The principal shareholder of the Company, Tengelmann Warenhandelsgesellschaft ("Tengelmann"), owned 52.5% of the Company's common stock as of February 24, 1990.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all majority-owned subsidiaries. At February 25, 1989, the minority interest in Waldbaum, Inc. of $17 million is included in the balance sheet caption "Other non-current liabilities." At February 24, 1990, the minority interest was $19 million and is included in the balance sheet caption "Other accruals" as a result of the Company purchasing the interest subsequent to year-end.

Inventories

Store inventories are valued principally at the lower of cost or market with cost determined under the retail method. Other inventories are valued primarily at the lower of cost or market with cost determined on a first-in, first-out basis. Inventories of recently acquired companies are valued using the last-in, first-out method, which was their practice prior to acquisition.

Properties

Depreciation and amortization are provided on the straight-line basis over the estimated useful lives of the assets. Buildings are depreciated based on lives varying from twenty to fifty years and equipment based on lives varying from three to ten years. Equipment and real property leased under capital leases are amortized over the lives of the respective leases. Properties designated for sale have been classified as current assets.

Pre-opening Costs

Costs incurred in the opening of new stores are expensed in the year incurred.

Earnings Per Share

Net income per share is based on the weighted average number of common shares outstanding during the year. Stock options outstanding had no material effect on the computation of net income per share.

Excess of Cost over Net Assets Acquired

The excess of cost over net assets acquired is amortized on a straight-line basis over 40 years.

Income Taxes

The Company provides deferred income taxes in recognition of differences between income for financial reporting and income tax purposes. Investment tax credits are amortized over the estimated useful lives of the related assets. In December of 1987, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 96 "Accounting for Income Taxes" ("SFAS 96") which requires the implementation of a liability method for the financial accounting and reporting of income taxes. The Company currently expects to adopt SFAS 96 in fiscal 1992 subject to any further action by the FASB. The Company has not determined the impact of adopting the statement on its financial statements.

Compensated Absences

The Company accrues for vested and non-vested vacation pay. Liabilities for compensated absences of $73 million and $69 million at February 24, 1990 and February 25, 1989, respectively, are included in the balance sheet caption "Accrued salaries, wages and benefits."

Acquisitions

In January 1989, the Company acquired all of the outstanding shares of Borman's, Inc. ("Borman's") for approximately $78 million in cash. Borman's operated 81 retail supermarkets principally in the Metropolitan Detroit area under the tradename of Farmer Jack.

The acquisition has been accounted for as a purchase and, accordingly, the excess of cost over the Company's net assets acquired of approximately $42 million has been included in the balance sheet caption "Other assets." Future recognition of operating loss and investment tax credit carryforwards for income tax purposes will reduce the excess of cost over the Company's net assets acquired.

The results of operations of Borman's have been included in the consolidated results of the Company from the date of acquisition. Pro forma sales, had the acquisition been completed on March 1, 1987 would have been $11.0 billion and $10.6 billion for fiscal years 1988 and 1987, respectively. Pro forma net income and net income per share have been omitted, as the results of Borman's prior to the date of acquisition would not materially affect the results as reported in the accompanying Statements of Consolidated Operations. Pro forma information is not necessarily indicative of the actual results that would have occurred, or the future operations of the combined companies.

Investment in Isosceles

During fiscal 1989 the Company loaned approximately $436 million to Newgateway Holdings Limited ("Newgateway"), a United Kingdom Company, which was formed to purchase the outstanding common shares of the Gateway Corporation PLC ("Gateway"), the third largest food retailer in the United Kingdom. Subsequently, Newgateway sold its Gateway shares to Isosceles PLC ("Isosceles"), the owner of a controlling interest in Gateway for cash and Isosceles shares. Concurrent with this sale, Newgateway repaid its loan to the Company with cash and 19.9% of the common and cumulative preference shares of Isosceles. The Company's investment in Isosceles was $144 million at year-end exchange rates and is included in the balance sheet caption "Other assets." The Company uses the cost method to account for this investment.

Inventory

Approximately 25% of the Company's inventories are valued using the last-in, first-out method. Such inventories would have been $11 million and $3 million higher at February 24, 1990 and February 25, 1989, respectively, if the retail or first-in, first-out methods were used. The last-in, first-out charge to earnings per share for fiscal years 1989, 1988 and 1987 was $.13, $.03 and $.01, respectively.

Litigation

On March 18, 1983, a judgment was entered by the Federal Court in Newark, New Jersey and affirmed on December 29, 1983 by the Third Circuit Court of Appeals, approving the settlement of an action brought by a former executive on behalf of himself and a class of participants in the Company's Employees' Retirement Plan. The action sought to prevent the termination of the plan and the distribution of the surplus assets to the Company. Pursuant to the settlement, the benefits to participants were increased at a cost of $50 million. On March 7, 1985, a purported class action, entitled *Ruthie Epting, et al. v. The Great Atlantic & Pacific Tea Company, Inc., et al.*, was brought in the same Federal Court against the Company, members of its Board of Directors and of its Retirement Board, and the Commissioner of Internal Revenue. The plaintiffs are persons who claim to be former employees who were discharged prior to obtaining vested pension rights under the

plan. The plaintiffs seek a declaratory judgment, claiming that they were discharged under circumstances constituting a partial termination of the plan, thus entitling them to benefits under the plan as well as other relief. On January 6, 1986, the Federal Court conditionally dismissed this purported class action, ruling that the plaintiffs were within the settlement class. The court requested the Internal Revenue Service ("IRS") to review the issue of whether any partial terminations had occurred and to present its findings to the court for further determination if appropriate. The IRS made such review and concluded on October 6, 1988 that partial terminations had occurred over the period of 1975–1981.

On May 8, 1989, the Federal Court in Newark entered a settlement order in this action. The settlement provides for payments to class members who were terminated during 1975–1981 in an amount not exceeding $6,000,000 and for payments to class members terminated prior to 1975 in an amount not exceeding $400,000; and for a further payment of $1,225,000 in attorney's fees and court costs (which fees and costs have been paid). The order is final, having been approved by the court at a settlement hearing held on November 20, 1989. The Company is administering the settlement in accordance with its terms and expects payments to claimants to commence in the summer of 1990.

The Company is also involved in various other claims, administrative agency proceedings and other lawsuits arising out of the normal conduct of its business. Although the ultimate outcome of the above legal proceedings cannot be predicted, the management of the Company believes that resulting liability, if any, will not have a material effect upon the Company's financial position.

Operations in Geographic Areas

The Company has been engaged in the retail food business since 1859 and currently does business under the names A&P, Super Fresh, Family Mart, Farmer Jack, Kohl's, Waldbaum's, Food Emporium, Food Mart, Food Bazaar, Sav-A-Center, Sun, Futurestore, Dominion and Compass Foods. Sales in the table below reflect sales to unaffiliated customers in the United States and Canada.

(Dollars in thousands)	**Fiscal 1989**	Fiscal 1988	Fiscal 1987
SALES:			
United States	**$ 9,197,353**	$ 8,204,675	$7,859,119
Foreign	**1,950,644**	1,863,101	1,672,661
Total	**$11,147,997**	$10,067,776	$9,531,780
INCOME BEFORE INCOME TAXES:			
United States	**$ 194,556**	$ 176,587	$ 141,933
Foreign	**56,242**	47,195	46,010
Total	**$ 250,798**	$ 223,782	$ 187,943
ASSETS:			
United States	**$ 2,238,333**	$ 2,210,213	$1,824,802
Foreign	**593,239**	430,157	418,372
Total	**$ 2,831,572**	$ 2,640,370	$2,243,174

Indebtedness

Debt consists of:

(Dollars in thousands)	**February 24, 1990**	February 25, 1989
9.5% Senior Notes, due in annual installments of $10,000 through October 1, 1992	**$ 30,000**	$ 40,000
Mortgages and Other Notes due 1990 through 2011 (average interest rates of 10.1% and 9.9%, respectively)	**97,170**	107,604
U.S. Bank Borrowings at 8.3% and 9.7%, respectively	**100,000**	67,225
U.K. Bank Borrowings at 15.6%	**106,136**	–
U.S. Commercial Paper at 8.3% and 9.4%, respectively	**50,849**	100,102
	384,155	314,931
Less current portion	**(54,869)**	(60,619)
Long-term debt	**$329,286**	$254,312

The net book value of real estate pledged as collateral for all mortgage loans amounted to approximately $139 million as of February 24, 1990. Bank and commercial paper borrowings of $221.8 million as of February 24, 1990 and $130 million as of February 25, 1989 are classified as non-current as it is the Company's intent to refinance these borrowings on a long-term basis.

During fiscal 1989 the Company established a $175 million credit agreement with banks enabling the Company to borrow funds on a revolving basis for a 4-year term to February 28, 1994. The Company entered into U.K. Pound Sterling bank credit agreements sufficient to fund its original loan to Newgateway and subsequent investment in Isosceles. In addition, the Company maintains U.S. lines of credit with banks in excess of $400 million.

During fiscal 1989 the Company increased its U.S. commercial paper program from $200 million to $350 million. The Company maintains available bank credit facilities sufficient to refinance borrowings under the commercial paper program. The Company's Canadian subsidiary has a C$100 million commercial paper program and a bank credit agreement whereby, at its option, it may refinance its commercial paper borrowings with loans having maturities of up to 5 years. In addition, pursuant to a prospectus dated June 5, 1987, the Company may offer up to $300 million of debt securities at terms determined by market conditions at the time of sale.

The Company's loan agreements contain certain financial covenants including limitations on the payment of cash dividends, the maintenance of minimum levels of working capital and limitations on the incurrence of additional indebtedness and lease commitments. At February 24, 1990 approximately $420 million of retained earnings were free of dividend restrictions.

Maturities for the next five fiscal years are: 1990–$55 million; 1991–$73 million; 1992–$71 million; 1993–$61 million; 1994–$60 million. Interest payments for fiscal 1989, 1988 and 1987 were approximately $40 million, $19 million and $22 million, respectively.

Subsequent to the 1989 fiscal year end, the Company refinanced the U.K. bank borrowings under its available U.S. bank and U.S. commercial paper program credit facilities. Simultaneously, the Company executed one year forward exchange contracts with banks for 77 million Pounds Sterling at an exchange rate of 1.61.

Lease Obligations

The Company operates primarily in leased facilities. Lease terms generally range up to twenty-five years for store leases and thirty years for other leased facilities, with options to renew for additional periods. The majority of the leases contain escalation clauses relating to real estate tax increases and certain store leases provide for increases in rentals when sales exceed specified levels. In addition, the Company leases some store equipment and trucks.

The consolidated balance sheets include the following:

(Dollars in thousands)	**February 24, 1990**	February 25, 1989
Real property leased under capital leases	**$304,459**	$305,995
Equipment leased under capital leases	**23,627**	33,933
	328,086	339,928
Accumulated amortization	**(139,899)**	(130,948)
	$188,187	$208,980

The Company entered into $3 million of new capital leases during both fiscal 1989 and 1988 and $24 million during fiscal 1987. Interest paid for capital lease obligations was approximately $30 million in fiscal 1989 and $27 million in both fiscal 1988 and 1987.

Rent expense for operating leases consists of:

(Dollars in thousands)	**Fiscal 1989**	Fiscal 1988	Fiscal 1987
Minimum rentals	**$117,111**	$105,267	$ 98,468
Contingent rentals	**11,060**	10,681	9,949
	$128,171	$115,948	$108,417

Minimum annual rentals for leases in effect at February 24, 1990 are shown in the table below. All amounts are exclusive of lease obligations and sublease rentals applicable to facilities for which reserves have previously been established.

(Dollars in thousands)	Capital Leases		
Fiscal	Equipment	Real Property	Operating Leases
1990	$ 6,567	$ 42,253	$ 102,148
1991	4,810	41,215	97,108
1992	2,504	40,133	88,866
1993	1,371	38,702	81,841
1994	737	36,127	76,462
1995 and thereafter	16	281,850	669,680
	16,005	480,280	$1,116,105
Less executory costs	–	(5,590)	
Net minimum rentals	16,005	474,690	
Less interest portion	(2,160)	(234,294)	
Present value of net minimum rentals	$13,845	$240,396	

Income Taxes

The provision for income taxes consists of the following:

(Dollars in thousands)	**Fiscal 1989**	Fiscal 1988	Fiscal 1987
Current:			
Federal	**$ 39,800**	$30,900	$38,500
Canadian	**22,800**	20,600	18,500
State and local	**10,100**	14,100	11,000
	72,700	65,600	68,000
Deferred:			
Federal	**26,500**	24,900	11,900
Canadian	**3,500**	2,900	4,600
State and local	**1,400**	2,800	–
	$104,100	$96,200	$84,500

The provision for income taxes includes amortization of investment tax credits of $2 million in fiscal 1989 and $3 million in both fiscal 1988 and 1987. The Company has unamortized investment tax credits of approximately $7 million for financial statement purposes. The Company has minimum tax credit carryforwards of approximately $29 million for income tax purposes.

Income tax payments for fiscal 1989, 1988 and 1987 were approximately $62 million, $64 million and $56 million, respectively.

The deferred income tax provision results primarily from accelerated tax depreciation, insurance, leasing, employee benefits and tax on the undistributed earnings of Canadian subsidiaries. Deferred taxes have not been provided on approximately $15 million of undistributed earnings of the Canadian subsidiaries which are considered to be permanently invested.

A reconciliation of the Federal statutory income tax rate to the Company's effective tax rate is summarized as follows:

	Fiscal 1989	Fiscal 1988	Fiscal 1987
Federal statutory income tax rate	**34.0%**	34.0%	38.0%
State income taxes less Federal tax benefit	**3.0**	5.0	3.6
Difference between Federal statutory rate and Canadian effective rate	**2.9**	3.3	3.0
Depreciation attributable to excess cost over tax basis of certain assets	**2.6**	1.6	1.8
Amortization of investment tax credits	**(1.0)**	(1.3)	(1.6)
Other, net	**–**	0.4	0.2
Effective income tax rate	**41.5%**	43.0%	45.0%

The Company's Chief Executive Officer has received payments from Tengelmann in accordance with a phantom stock agreement. Under the terms of this agreement, the Company will recognize these payments as deductions for Federal income tax purposes, but based upon the facts and circumstances of the agreement, such payments do not represent compensation expense for financial statement purposes. Accordingly, the reduction of taxes currently payable attributable to these payments has been recorded as a credit of $1.0 million, $5.6 million and $2.5 million in fiscal 1989, 1988 and 1987, respectively, to the capital surplus of the Company.

Retirement Plans and Benefits

The Company provides retirement benefits to certain non-union and some union employees under several defined benefit plans. Benefits under these plans are determined based upon service time and compensation. Net pension expense for these plans consists of the following components:

(Dollars in thousands)	**Fiscal 1989**	Fiscal 1988	Fiscal 1987
Service cost	**$ 7,702**	$ 5,750	$ 5,061
Interest on projected benefit obligation	**16,148**	11,437	10,402
Actual return on plan assets	**(25,048)**	(13,990)	(9,023)
Net amortization and deferral	**4,082**	(398)	(2,832)
Net pension expense	**$ 2,884**	$ 2,799	$ 3,608

The Company's U.S. defined benefit pension plans are accounted for on a calendar year basis while the Company's Canadian defined benefit pension plans are accounted for on a fiscal year basis beginning in fiscal 1989. The funding for these plans is based on an evaluation of the assets and liabilities of each plan. The majority of plan assets is invested in listed stocks and bonds. A reconciliation of the funded status of these plans is as follows:

	December 31, 1989		December 31, 1988	
(Dollars in thousands)	**Assets Exceed Accumulated Benefits**	**Accumulated Benefits Exceed Assets**	Assets Exceed Accumulated Benefits	Accumulated Benefits Exceed Assets
Actuarial present value of:				
Vested benefit obligation	**$148,521**	**$14,743**	$122,741	$11,830
Accumulated benefit obligation	**$154,863**	**$15,018**	$129,065	$12,553
Projected benefit obligation	**$174,855**	**$16,047**	$145,729	$13,976
Plan marketable securities at fair value	**192,912**	**4,089**	178,712	2,895
Excess (deficiency) of plan assets versus projected benefit obligation	**18,057**	**(11,958)**	32,983	(11,081)
Unrecognized net (gain) loss	**7,732**	**196**	(11,868)	(624)
Prior service cost not yet recognized in net pension expense	**2,390**	**(212)**	4,693	(59)
Unrecognized net transitional obligation (asset)	**(17,011)**	**1,964**	(17,874)	2,325
Pension asset (liability)	**$ 11,168**	**$(10,010)**	$ 7,934	$ (9,439)

Actuarial assumptions used to determine net pension expense and year-end plan status were as follows:

	Fiscal 1989	Fiscal 1988
Discount rate	**8%–9.25%**	9%
Expected rate of return on assets	**9.25%–10%**	9%
Rate of increase in future compensation levels	**5%–6%**	6%

The Company sponsors a defined contribution Retirement Savings Plan under which an eligible participant may contribute up to 16% of eligible salary, subject to certain statutory limitations. The Company contributes 4% of such salary, plus 50% of the participant's initial 6% contribution. Participants become fully vested in the Company's contribution after 5 years of service. The Company's contributions charged to operations were approximately $7 million in fiscal 1989, 1988 and 1987.

In addition to the Company's Retirement Savings Plan, the Company also maintains certain other defined contribution plans, primarily for its Waldbaum, Shopwell and Borman's subsidiaries. Participants contribute to these plans based on a percentage of eligible salary, and the Company contributes to such plans based on specified percentages of the participants' eligible contributions. Contributions charged to operations in fiscal 1989, 1988 and 1987 for these plans were not significant.

The Company participates in various multi-employer union pension plans which are administered jointly by management and union representatives and which sponsor most full-time and certain part-time union employees who are not covered by the Company's other pension plans. The pension expense for these plans approximated $40, $33 and $31 million in fiscal 1989, 1988 and 1987, respectively. The Company could, under certain circumstances, be liable for unfunded vested benefits or other expenses of jointly administered union/management plans.

In addition to providing pension benefits, the Company provides contributory health and life benefits to approximately 900 employees who have elected early retirement. The costs of retiree benefits, which are not significant, are recognized as expense as claims are reported.

Stock Options

The Company has a 1975 and 1984 Stock Option Plan for its officers and key employees. As of February 23, 1985 all available options under the 1975 Stock Option Plan had been granted, of which 190,150 shares remain unexercised. The 1984 Stock Option Plan provides for the granting of 1,500,000 shares, either as options or Stock Appreciation Rights ("SAR's") at exercise prices equal to the fair value of the Company's common stock on the date the option is granted. SAR's allow the optionee, in lieu of purchasing stock, to receive cash in an amount equal to the excess of the fair market value of common stock on the date of exercise over the option price. Compensation expense relating to SAR's of $6 million, $8 million and $7 million was recorded during the fiscal years 1989, 1988 and 1987, respectively.

A summary of option transactions is as follows:

	Shares	Price Range Per Share
Outstanding February 27, 1988	838,597	$ 5.50-$39.00
Granted	571,000	34.75- 46.38
Cancelled or expired	(32,750)	14.75- 34.00
Options exercised	(56,147)	5.50- 15.75
SAR's exercised	(298,100)	11.44- 39.00
Outstanding February 25, 1989	1,022,600	$ 5.50-$46.38
Granted	180,000	59.00- 65.13
Cancelled or expired	(10,250)	21.50- 46.38
Options exercised	(13,000)	5.50- 15.75
SAR's exercised	(111,300)	11.44- 46.38
Outstanding February 24, 1990	1,068,050	$ 5.50-$65.13
Exercisable at:		
February 25, 1989	481,087	$ 5.50-$46.13
February 24, 1990	677,800	$ 5.50-$65.13

Summary of Quarterly Results
(unaudited)

The following table summarizes the Company's results of operations by quarter for fiscal 1989 and 1988. The first quarter of each fiscal year contains sixteen weeks while the other quarters each contain twelve weeks.

(Dollars in thousands, except per share figures)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
1989					
Sales	**$3,439,591**	**$2,590,149**	**$2,550,533**	**$2,567,724**	**$11,147,997**
Gross margin	**897,733**	**686,009**	**674,834**	**678,158**	**2,936,734**
Income from operations	**95,250**	**72,542**	**66,369**	**73,952**	**308,113**
Net income	**45,390**	**35,630**	**31,169**	**34,509**	**146,698**
Per share data:					
Net income	**1.19**	**.93**	**.82**	**.90**	**3.84**
Cash dividends	**.15**	**.175**	**.175**	**.175**	**.675**
Market price:					
High	**61.50**	**65.125**	**64.625**	**65.125**	
Low	**47.50**	**54.875**	**56.500**	**50.125**	
Number of stores at end of period:	**1,231**	**1,228**	**1,227**	**1,215**	
1988					
Sales	$3,004,014	$2,327,956	$2,302,389	$2,433,417	$10,067,776
Gross margin	770,081	587,016	600,534	628,772	2,586,403
Income from operations	81,657	61,985	60,166	63,551	267,359
Net income	38,047	29,450	29,495	30,590	127,582
Per share data:					
Net income	1.00	.77	.77	.80	3.34
Cash dividends	.125	.15	.15	.15	.575
Market price:					
High	39.00	43.00	48.00	51.875	
Low	33.75	37.00	41.75	44.375	
Number of stores at end of period:	1,172	1,170	1,166	1,241	

Management's Report on Financial Statements

The management of The Great Atlantic & Pacific Tea Company, Inc. has prepared the consolidated financial statements and related financial data contained in this Annual Report. The financial statements were prepared in accordance with generally accepted accounting principles appropriate to our business and, by necessity and circumstance, include some amounts which were determined using management's best judgments and estimates with appropriate consideration to materiality. Management is responsible for the integrity and objectivity of the financial statements and other financial data included in this report. To meet this responsibility, management maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that accounting records are reliable. Management supports a program of internal audits and internal accounting control reviews to provide assurance that the system is operating effectively.

The Board of Directors pursues its responsibility for reported financial information through its Audit Review Committee. The Audit Review Committee meets periodically and, when appropriate, separately with management, internal auditors and the independent auditors, Deloitte & Touche, to review each of their respective activities.

James Wood
James Wood
Chairman of the Board, President
and Chief Executive Officer

Fred Corrado
Fred Corrado
Executive Vice President,
Chief Financial Officer and Treasurer

Independent Auditors' Report

To the Shareholders and Board of Directors of The Great Atlantic & Pacific Tea Company, Inc.:

We have audited the accompanying consolidated balance sheets of The Great Atlantic & Pacific Tea Company, Inc. and its subsidiary companies as of February 24, 1990 and February 25, 1989 and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three fiscal years in the period ended February 24, 1990. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of The Great Atlantic & Pacific Tea Company, Inc. and its subsidiary companies at February 24, 1990 and February 25, 1989 and the results of their operations and their cash flows for each of the three fiscal years in the period ended February 24, 1990 in conformity with generally accepted accounting principles.

Deloitte & Touche
Hackensack, New Jersey
April 26, 1990

Five-Year Summary of Selected Financial Data

The Great Atlantic & Pacific Tea Company, Inc.

Dollars in thousands, (except per share figures)	**Fiscal 1989 (52 weeks)**	Fiscal 1988 (52 weeks)	Fiscal 1987 (52 weeks)	Fiscal 1986 (53 weeks)	Fiscal 1985 (52 weeks)
Operating Results					
Sales	**$11,147,997**	$10,067,776	$9,531,780	$7,834,859	$6,615,422
Income before extraordinary credits	**146,698**	127,582	103,443	69,010	56,090
Net income	**146,698**	127,582	103,443	95,010	88,290
Per Share Data					
Income before extraordinary credits	**3.84**	3.34	2.71	1.82	1.48
Net income	**3.84**	3.34	2.71	2.50	2.33
Cash dividends	**.675**	.575	.475	.40	.10
Financial Position					
Current assets	**1,075,867**	1,068,746	945,663	898,854	756,594
Current liabilities	**995,686**	978,109	882,953	805,436	582,503
Working capital	**80,181**	90,637	62,710	93,418	174,091
Current ratio	**1.08**	1.09	1.07	1.12	1.30
Total assets	**2,831,572**	2,640,370	2,243,174	2,080,226	1,663,760
Long-term debt	**329,286**	254,312	168,255	196,209	151,306
Capital lease obligations	**233,564**	252,618	225,695	223,933	196,360
Equity					
Shareholders' equity	**1,092,164**	970,843	851,310	755,718	668,688
Book value per share	**28.59**	25.42	22.32	19.85	17.63
Weighted average shares outstanding	**38,198,000**	38,164,000	38,106,000	38,017,000	37,839,000
Number of shareholders	**15,045**	16,079	19,228	20,717	22,433
Other					
Number of employees	**91,000**	92,000	83,000	81,500	60,000
Number of stores at year end	**1,215**	1,241	1,183	1,200	1,045
Total store area (square feet)	**36,369,000**	36,407,000	33,111,000	32,609,000	27,648,000

Corporate Officers

James Wood
Chairman of the Board, President and Chief Executive Officer

James W. Rowe
Vice Chairman of the Board and Executive Committee

Fred Corrado
Executive Vice President, Chief Financial Officer and Treasurer

Michael J. Larkin
Executive Vice President, Operations

Aaron Malinsky
Executive Vice President, Subsidiary Companies

Peter J. O'Gorman
Executive Vice President, Development

George Graham
Senior Vice President, Chief Merchandising Officer

James L. Madden
Senior Vice President, Operations

Ivan K. Szathmary
Senior Vice President, Chief Services Officer

Robert G. Ulrich
Senior Vice President, General Counsel

Ernest H. Berthold
Vice President, Assistant to the C.E.O.

Peter R. Brooker
Vice President, Planning and Corporate Secretary

Timothy J. Courtney
Vice President, Taxation

R. Paul Gallant
President, Compass Foods

Kenneth W. Green
Vice President, Produce Merchandising and Procurement

Clifford J. Horler
Vice President, Engineering and Construction

Robert A. Keenan
Vice President, Chief Internal Auditor

Peter R. Lavoy
Vice President, Corporate Merchandising

Francis X. Leonard
Vice President, Real Estate Administration

H. Nelson Lewis
Vice President, Human Resources

Mary Ellen Offer
Assistant Corporate Secretary

Peter E. Rolandelli
Vice President, Management Information Systems

Michael J. Rourke
Vice President, Communications and Corporate Affairs

Richard J. Scola
Vice President, Assistant General Counsel

J. Paul Stillwell
President, Supermarket Service Corp.

William J. Tennant
Vice President, Controller

Robert W. Toomey
Vice President, Michigan Group

Burton J. Weinbaum
President, A&P Northeast

William T. Wolverton
Vice President, Warehousing and Transportation

A&P Canada

John P. Dunne
President

Borman's, Inc.

Paul Borman
Chairman

Kohl's Food Stores

Larry Zettle
President

Waldbaum, Inc.

Stanley Lang
President

Kenneth Abrahams
President, Food Mart Division

Directors

James Wood (c)
Chairman of the Board, President and Chief Executive Officer

Rosemarie Baumeister (b)
Executive Vice President, Tengelmann Warenhandelsgesellschaft, West Germany

Christopher F. Edley(a)(b)(d)(e)
President, United Negro College Fund, Inc.

Helga Haub (c)(d)

Barbara Barnes Hauptfuhrer (a)(c)(e)
Director of various corporations

Paul C. Nagel, Jr. (a)(d)
Director of various corporations

James W. Rowe (c)(d)(e)
Vice Chairman of the Board and Executive Committee

Eckart C. Siess (c)(e)
Director, International Liaison Officer

Fritz Teelen
President, Plus subsidiary Tengelmann Warenhandelsgesellschaft, West Germany

Henry W. Van Baalen (b)
Business Consultant

(a) Member of Audit Review Committee, Paul C. Nagel, Jr., Chairman

(b) Member of Compensation Policy Committee, Henry W. Van Baalen, Chairman

(c) Member of Executive Committee James Wood, Chairman

(d) Member of Finance Committee Paul C. Nagel, Jr., Chairman

(e) Member of Retirement Benefits Committee, Barbara Barnes Hauptfuhrer, Chairman

Executive Offices

Box 418
2 Paragon Drive
Montvale, NJ 07645
Telephone 201-573-9700

Transfer Agent and Registrar

American Stock Transfer
and Trust Company
99 Wall Street
New York, NY 10005
Telephone 212-936-5100

Independent Auditors

Deloitte & Touche
411 Hackensack Avenue
Hackensack, New Jersey 07601

Shareholder Inquiries, Publications and Address Changes

Shareholders, security analysts, members of the media and others interested in further information about the Company are invited to contact the Corporate Affairs Department at the Executive Offices in Montvale, New Jersey.

Correspondence concerning address changes should be directed to:
American Stock Transfer and Trust Company
99 Wall Street
New York, NY 10005
Telephone 212-936-5100

Form 10-K

Copies of Form 10-K filed with the Securities and Exchange Commission will be provided to shareholders upon written request to the Secretary at the Executive Offices in Montvale, New Jersey.

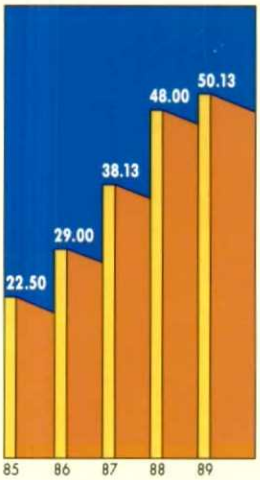
Annual Meeting

The Annual meeting of Shareholders will be held at 10:00 a.m. on Tuesday, July 10, 1990 at the Waldorf-Astoria Hotel, 301 Park Avenue, New York, New York. Shareholders are cordially invited to attend.

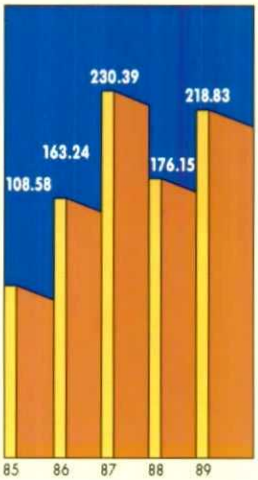
Common Stock

Common stock of the Company is listed and traded on the New York Exchange under the ticker symbol "GAP" and has unlisted trading privileges on the Boston, Midwest, Philadelphia, Cincinnati, and Pacific Stock Exchanges. The stock is reported in newspaper and periodical tables as "GtAtPc."

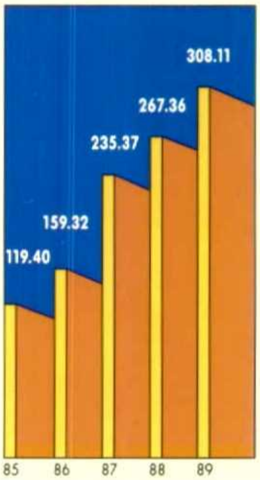
MARKET PRICE PER SHARE AT YEAR END
In Dollars



CAPITAL EXPENDITURES
Millions of Dollars



INCOME FROM OPERATIONS
Millions of Dollars



BOOK VALUE PER SHARE
In Dollars